

ALABAMA DEPARTMENT OF REVENUE
ADMINISTRATIVE CODE

CHAPTER 810-3-163

Taxation of Transactions Involving Individuals Related
to Shareholders of an Alabama S Corporation

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(1) A related individual (as defined in subsection (2) below) who furnishes capital and/or provides services for an Alabama S corporation without receiving reasonable compensation for the capital and/or services, will be deemed to have received income from the Alabama S corporation equal to the value of reasonable compensation less the value of any compensation actually paid. A deduction will be allowed to the Alabama S corporation in an amount equal to the amount of income the related individual is deemed to have received from the corporation. No deduction is allowable to the related individual.

(2) Definitions. For the purposes of this section, the following definitions apply:

(a) Related Individual - Any person (or persons) who is the spouse, ancestor, or lineal descendent (or any trust for the primary benefit of such persons) related to a shareholder (or shareholders) of an Alabama S corporation or to any beneficiary (or beneficiaries) of a trust (or trusts) that is a shareholder of an Alabama S corporation.

(b) Reasonable Compensation - The fair market value of capital furnished, or the fair market value of property, services, wages, fees or other compensation for services performed. The fair market value of capital furnished will be presumed to be equal to the rate of interest on delinquent taxes provided by § 40-1-44, Code of Alabama 1975.

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